

The Influence of the Sharia Maqasid Index Forming Factors on Bank Profitability

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Research article

Received 6 September 2022; Accepted 29 October 2022

How to cite: Syarief, ME. (2022). The Influence of the Sharia Maqasid Index Forming Factors on Bank Profitability. *Indonesian Journal of Economics and Management*, 3(1), 196-203.

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Abstract: The aim of this research is to see the effect of the forming factors of the sharia maqasid index on profitability. research data consists of 80 years of observations obtained from bank annual reports, with warp-PLS as a data analysis tool used in this study. the variables used are education, justice, and maslaha as independent variables and return on assets as the dependent variable. the results of the study state that education has no effect on profitability, because investment in Islamic banking is still not significant for increasing stakeholder knowledge of Islamic financial literacy. Justice has a significant negative effect on profitability, occurring because financing risks are shared between Islamic banks and financing customers. Maslaha has a significant positive effect on profitability, because the role of Islamic banking in increasing welfare can be accepted by the community, which will increase acceptance of Islamic banking products in society, and will ultimately increase bank profitability.

Keywords: education; justice; maslaha; return on assets.

1. Introduction

Islamic banking can be a solution because one of its goals is to improve people's welfare (Nugroho, 2022). The aim of Islamic banking, apart from making a profit, is to apply the principle of mutual assistance in its operations. Helping can be said to be one of the social roles of Islamic banks which can be measured using the maqasid sharia index ((Sari, 2020). Maqasid sharia itself can be said to be the main goal of sharia in upholding faith, rules and regulations (Yazid & Asmadi, 2015) Even so, there are still many who argue that Islamic banking products still do not reflect Islamic mqasid, in fact many Islamic banking rules are duplicates of conventional banking rules (Yazid & Asmadi, 2015).

The sharia maqasid index is one of the manifestations of sharia principles which is used to assess the extent to which Islamic banks can achieve sharia goals. The sharia maqasid index used reflects the values of education, justice, and economic prosperity, or maslahah (Wahyudi et al., 2022). The performance of sharia maqasid can increase profitability as long as the transparency of sharia guarantees can be carried out properly ((Taufik et al., 2023). Wahyudi et al., (2022) argues that the central bank should encourage sharia banking to include maqasid sharia principles in the bank's vision and mission.

So far, there has been no official provision from the regulator that the sharia maqasid index can be used as a way to assess the performance of Islamic banks, but it can be used as a benchmark to see whether the Islamic bank meets sharia objectives. (Sutrisno & Widarjono, 2018). This is in accordance with the opinion of Mohammed & Razak (2005) Yazid &

Asmadi(2015) which states that the objectives of sharia should be the basic framework in the operation of Islamic banks.

In its implementation, the sharia maqasid index has an influence on the profitability of Islamic banks (Belianti et al., 2022; Riezdita et al., 2021). However, to the best of the author's knowledge, currently many researchers use the overall sharia maqasid index which includes the three aspects of education, justice, and maslahah as variables that affect profitability. (Hosen et al., 2019; Mohammed & Razak, 2005; Riezdita et al., 2021; Sari, 2020; Wan Ibrahim & Ismail, 2020). This paper aims to look at the influence of the forming factors of the sharia maqasid index on the profitability of Islamic banks. This is also the novelty of this study compared to similar studies. The forming factors of the maqasid index referred to here are individual education (Educ), Justice (Justice), and public interest (Maslaha), according to the size used by (Mohammed & Razak, 2005).

2. Literature Review

2.1. Profitability

One of the indicators used to measure profitability is return on assets (ROA), which is the ratio between net income to total assets owned by a bank. ROA reflects the ability of assets owned by Islamic banks to generate profits, or the effectiveness of assets owned in generating profits (Hosen et al., 2019; Sari, 2020).

2.2. Indeks Maqasid Syariah

The sharia maqasid index is an elaboration of sharia objectives derived by (Mohammed & Razak, 2005) using the Sekaran method approach. The operational variables used can be seen in table 1 below.

Table 1 Operationalization of Sharia Maqasid

Concepts (Objectives)	Dimensions	Elements	Performance Ratios
1.. Educating Individual	D1.Advancement Of Knowledge	E1.Education grant	R1. Education grant/total income
		E2.Research	R 2. Research expense/total expense
	D2. Instilling new skills and improvements	E3.training	R 3. Training Expense/total expense
	D3. Creating Awareness of Islamic banking	E4.Publicity	R 4. Publicity expense/total expense
2. Establishing Justice	D4. Fair dealings	E5. Fair Returns	R 5. profit/ total income
	D5.Affordable products and services	E6. Affordable price	R 6. Bad debt/ total investment
	D6. Elimination of injustices	E7. Interest free product	R 7. Interest free income/ total income
3. Public Interest	D7. Profitability	E8. Profit ratios	R 8.Net profit/ total asset

Concepts (Objectives)	Dimensions	Elements	Performance Ratios
	D8. Redistribution of income & wealth	E9. personal income	R 9. Zakah/ Net Income
	D9. Investment in vital real sector	E10. Investment ratios in real sector	R 10. Investment deposit/total deposit

Source: Mohammed & Razak (2005)

In performance measurement, each concept is reduced to dimensions and elements have their respective weights as shown in table 2 below.

Table 2 Aims and MSI element weighting

Objectives	Average Weight (Out of 100%)	Elements	Average Weight (Out of 100%)
O1. Education (Tahdhib al-Fard)	30	E1. Education Grants/Donations	24
		E2. Research	27
		E3. Training	26
		E4. Publicity	23
		Total	100
O2. Justice (Al-„Adl)	41	E5. Fair Returns	30
		E6. Fair Price	32
		E7. Interest free product	38
		Total	100
O3. Welfare (Al-Maslahah)*	29	E8. Bank's Profit Ratios	33
		E9. Personal Income Transfers	30
		E10. Investment Ratios in real sector	37
Total	100	Total	100

Source:(Mohammed & Razak, 2005)

2.2.1. Education

Education is the dissemination of knowledge through education carried out by the bank, which is divided into two parts, namely internal and external banks (Sholichah, 2022; Wijayanti et al., 2020). Education for external parties is in the form of publications to introduce Islamic banking products (Sholichah, 2022). Nugroho (2022) states that Islamic financial literacy in Indonesia is still low, so it requires the collaboration of many parties, not only the government, to increase this literacy. (Syarief et al., 2021)) states that mobile banking can be part of publication as an educational medium related to sharia products themselves.

Educational activities carried out by Islamic banks, especially research and development activities and scholarships, are still at a low level (Wijayanti et al., 2020), however,

inappropriate educational strategies have no effect on profitability in Islamic banks (Hosen et al., 2019; Wijayanti et al., 2020). In its implementation, the overall sharia maqasid index has an influence on the profitability of Islamic banks ((Belianti et al., 2022; Riezdita et al., 2021)..

2.2.2. *Justice*

Islamic banks are expected to be able to carry out fair transactions and not harm their customers (Sari, 2020). This concept will be the main differentiator compared to the interest concept in conventional banking, where in the interest concept, the bank as a channel of capital will not accept the risk of returning capital, because all risks are borne by the customer. Meanwhile, in Islamic banking, the risk of financing investment will be borne by both parties, the bank and the financing customer (Sari, 2020). In addition, Islamic banks must be able to guarantee that all employees can act honestly in all activities that occur in all transactions, be it products, prices, or contract terms used. (Yusup & Nasution, 2020).

2.2.3. *Maslahah*

Islamic banking is required to invest in projects and services that can improve people's welfare (Sari, 2020) and concerned with the social problems faced by society which is manifested through the concepts of zakat, infaq, and alms (Yusup & Nasution, 2020). Thus the bank will invest in products related to the real sector, not the financial sector. In addition, banks can also act as amil zakat, whose role is to distribute zakat to those who are entitled to receive it (Sari, 2020; Yusup & Nasution, 2020).

3. Research Methods

The research method used is a quantitative method, with secondary data sources derived from the annual financial reports of research subjects. The sample used was 8 Islamic commercial banks in Indonesia with a research period from 2010 to 2019. This period was chosen as the research period for reasons of completeness of the data based on the research variables used and is a period not affected by the Covid-19 pandemic. The total number of observations collected was 80 years of observation. Data analysis used the partial least squares approach with the help of Warp-PLS software. The research model used is as follows:

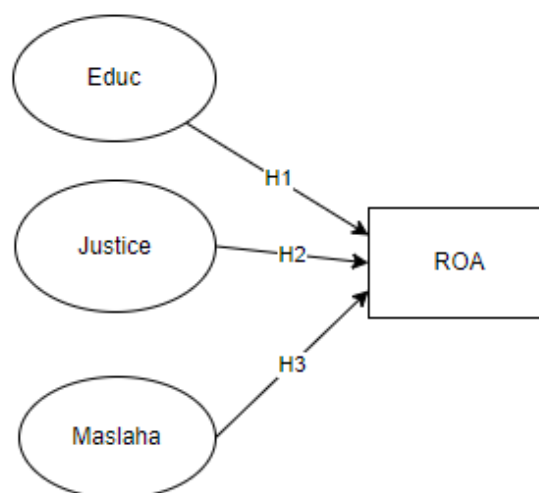


Figure 1. Research Model

Educ, Justice and Maslahah are the forming factors of the sharia maqashid index

(Mohammed & Razak, 2005). Educ is a latent variable with 4 indicators (education grant, research, training, publicity), Justice has 3 indicators (fair return, affordable price, interest free product), while Maslaha has 3 indicators (profit ratio, personal income, investment ratio in sector real)(Mohammed & Razak, 2005), while ROA is the dependent variable that reflects the effectiveness of assets in generating profit (Hosen et al., 2019). The hypothesis put forward is that education (H1), fairness (H2), and maslahah (H3) have an effect on profitability.

4. Results and Discussion

Based on the results of data analysis, the model used can be used to prove the proposed hypothesis, because of the 10 goodness of fit measures tested, only one measure is not fit. This can be seen in the results of the Goodness of Fit model in the following table:

Table 3. Goodness of Fit Model

Indices	Values	P-Values	Criterion	Status
APC	0,281	0,002	$P < 0.05$	Fit
ARS	0,461	$<0,001$	$P < 0.05$	Fit
AARS	0,44	$<0,001$	$P < 0.05$	Fit
AVIF	1,433	-	<i>Value < 5, ideally $\leq 3,3$</i>	Fit
AFVIF	1,797	-	<i>Value < 5, ideally $\leq 3,3$</i>	Fit
GoF	0,526	-	<i>Medium > 0.25, large > 0.36</i>	Fit
SPR	1	-	<i>Acceptable if > 0.7, ideally 1</i>	Fit
RSCR	1	-	<i>Acceptable if > 0.9, ideally 1</i>	Fit
SSR	1	-	<i>Acceptable if > 0.7</i>	Fit
NLBCDR	0,667	-	<i>Acceptable if > 0.7</i>	UnFit

The regression coefficients for each variable are as follows:

Table 4. Path Coefficient

Path (Hypothesis)	Coefficient	p-value	Keterangan
Educ --> ROA	0,075	0,247 ^{ns}	No significant
Just --> ROA	-0,328	$<0.001^*$	Significant
Maslaha --> ROA	0,44	$<0.001^*$	Significant

*significant on $\alpha = 1\%$; ^{ns} Not Significant

Based on the results of the analysis of the collected data, it can be said that Educ has no effect on ROA ($\alpha = 0.075$; p-val = 0.247), Justice ($\alpha = -0.328$; p-val < 0.001) has a significant negative effect on ROA and Maslaha ($\alpha = 0.44$; p-val < 0.001) has a significant positive effect on ROA. The coefficient of determination of this model is 46%, which means that the variation in changes in the independent variables can explain 46 percent of the changes in the dependent variable, while the remaining 54% is explained by other variables not included in the research model.

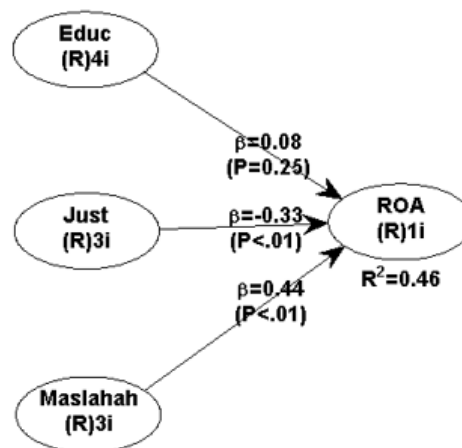


Figure 2. Path Coefficient

Based on the results above, it can be said that H1 which states that education has an effect on profitability is rejected. The reason may be that investment in Islamic banking in increasing knowledge or literacy in Islamic finance is still not significant in increasing the knowledge of stakeholders, both internal and external parties. This is in accordance with the opinion of (Nugroho, 2022; Wijayanti et al., 2020; Yusup & Nasution, 2020) which states that educational activities are still at a low level. When viewed from the role of education which functions to increase knowledge, it is possible that education will show its role when it becomes an endogenous variable for justice and maslahah variables.

The second hypothesis states that justice has an effect on profitability, and the results of data analysis state that justice has a significant negative effect on profitability. Thus, H2 is accepted. These results state that the higher the value of justice obtained, the lower the profitability of the bank obtained. This condition may occur due to an imbalance in the market share of Islamic banking and conventional banking, where the current market share of Islamic banking is still below 10%, so that investment issued by Islamic banking to uphold justice has not shown optimal results. This is in line with Sari's opinion (2020) which states that in upholding justice the risk will be shared between the bank and the customer.

The results of the data analysis stated that maslahah had a positive effect on profitability. This states that H3 is accepted. This condition states that the role of Islamic banking in improving public welfare can be accepted by stakeholders, which results in the acceptance of Islamic banking products in society, so as to increase investment value in the real sector which will ultimately increase bank profitability. This is in accordance with the opinion of (Sari, 2020; Yusup & Nasution, 2020) which states that banks can play a role in improving people's welfare.

5. Conclusion

This study aims to see the effect of the forming factors of the sharia maqasid index on the profitability of Islamic banking. the results of data analysis show that education has no effect on profitability, perhaps because investment in Islamic banking is still not significant for increasing stakeholder knowledge of Islamic financial literacy. Justice has a significant negative effect on profitability, this condition occurs because financing risks are shared between Islamic banks and financing customers. Maslahah has a positive effect on profitability, stating that the role of Islamic banking in increasing welfare can be accepted by society, which will increase acceptance of Islamic banking products in society, and will ultimately increase bank profitability.

The recommendation from this study is that Islamic banking should increase investment in educational factors to increase Islamic financial literacy, which will impact on the increasing recognition of Islamic banking products. Of course, Islamic banking does not have to do this alone, but can collaborate with related parties, such as regulators, the government, and universities.

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